



**FOX C-6 SCHOOL DISTRICT
YEAR ENDED JUNE 30, 2001**

**From The Office Of State Auditor
Claire McCaskill**

**Report No. 2002-24
March 18, 2002
www.auditor.state.mo.us**

AUDIT REPORT



Office Of The
State Auditor Of Missouri
Claire McCaskill

March 2002

The following problems were discovered as a result of an audit conducted by our office of the Fox C-6 School District.

The district's current bidding procedures could be made more effective by adopting a comprehensive policy with a lower dollar limit. The current policy states that a formal bidding process may be used for projected expenditures of \$12,500 or greater for items such as supplies, materials, equipment and contractual services. In addition, the district policy requires all construction projects over \$12,500 be bid as required by state law. However, the policy does not require bidding for non-construction items and does not indicate the types of bidding that can be done to ensure the district receives the best economical value on its purchases for amounts less than \$12,500. A more comprehensive policy would require bidding and would identify specific bidding procedures that are required for purchases under \$12,500.

In addition to complying with state law, competitive bidding helps ensure the school district receives fair value by contracting with the lowest and best bidders. Bidding helps ensure all parties are given an equal opportunity to participate in the district's business.

Our audit also found that the district did not formally bid all purchases over \$12,500, and documentation of informal price quotations was not maintained. The district paid a single vendor approximately \$33 per hour, in labor costs, to service district buses and vehicles. The total parts and labor costs paid to this vendor were \$311,879 and \$255,856, for the years ended June 30, 2001 and 2000, respectively. The hourly rate was not bid.

Also, bid documentation is not always received or retained by district personnel. Without formal bidding or documentation there is no evidence the School Board received the lowest and best service.

The school district does not always enter into written contracts defining services to be provided and benefits to be received. The district's policy gives the School Board sole authority to enter into and approve contracts. We noted the following concerns regarding contracts:

- There is no written contract between the school district and the vendor used to maintain and repair the district's buses and vehicles.
- There is no written contract between the district and its architect which outlines the services to be provided or the costs for those services.

(over)

YELLOW SHEETS

- The district does not have a written contract with the company that provides maintenance supplies used for the repair and maintenance of district buildings.
- There are no written contracts with the three vendors providing a la carte food items to the Food Service department and five vendors providing soda or vending machines.
- There is no written contract between the district and its depository bank.
- Some written contracts are not signed by the School Board.

District policy requires purchase orders be submitted for all purchases which are not specifically exempted by the School Board. Thirteen out of seventeen purchases (76 percent) reviewed either did not have a purchase order, or the purchase order did not agree to the amount of the vendor's invoice.

Overpayments to vendors were not discovered by district personnel on a timely basis. A contractor submitted four invoices to the district totaling \$74,026. District personnel generated two checks, totaling \$129,046, for these invoices. The overpayment of \$55,020 was not detected by the district; however, the vendor noted the overpayment and refunded the district.

Another contractor submitted two invoices for work done at several different schools, totaling \$47,455. Again, the district submitted two checks, totaling \$58,730, overpaying the contractor by \$11,275. District personnel sought reimbursement from the vendor after we brought the error to their attention.

The district purchased goods and services from two companies in which a School Board member appeared to have a conflict of interest. Additionally, district personnel processed some credit card payments without proper supporting documentation.

The district used Gifted Education monies to transport students to various functions which is an unallowable cost according to the Department of Elementary and Secondary Education's guidelines.

The School Board amends the district budget after the expenditures have been incurred. The final checks at year end are prepared and the expenditures are recorded in the district records before the budget is amended. These checks are held until the budget is amended by the School Board. After the budget is amended, the School Board approves the checks and, if the goods or services have been received, the checks are issued to the payees. In some cases, the checks will continue to be held until payment is due to the employee or vendor.

The budget should be amended before the expenditures are incurred or when the encumbrances are made. In addition, the district should not be writing and approving checks for services not yet received.

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FOX C-6 SCHOOL DISTRICT

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STATE AUDITOR'S REPORT



CLAIRE C. McCASKILL
Missouri State Auditor

Board of Education
Fox C-6 School District
Arnold, MO 63010

The State Auditor was petitioned under Section 29.230, RSMo, to audit the Fox C-6 School District. The School Board had engaged Daniel Jones & Associates, Certified Public Accountants (CPAs), to audit the school district for the year ended June 30, 2001. To minimize any duplication of effort, we reviewed the report and substantiating working papers of the CPA firm. The scope of our audit of the school district included, but was not necessarily limited to, the year ended June 30, 2001. The objectives of this audit were to:

1. Perform procedures to evaluate the petitioners' concerns.
2. Review compliance with certain legal provisions.
3. Review certain management practices.

Our audit was conducted in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such procedures as we considered necessary in the circumstances. In this regard, we reviewed minutes of meetings, written policies, financial records, and other pertinent documents, and interviewed various personnel of the school district.

Our audit was limited to the specific matters described above and was based on selective tests and procedures considered appropriate in the circumstances. Had we performed additional procedures, other information might have come to our attention that would have been included in this report.

The accompanying History, Organization, and Statistical Information is presented for informational purposes. This information was obtained from the school district's management and was not subjected to the procedures applied in the audit of the school district.

The accompanying Management Advisory Report presents our findings arising from our audit of the Fox C-6 School District.

A handwritten signature in black ink, reading "Claire McCaskill". The signature is fluid and cursive, with the first name "Claire" and last name "McCaskill" clearly distinguishable.

Claire McCaskill
State Auditor

September 14, 2001 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits:	Kenneth W. Kuster, CPA
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MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

FOX C-6 SCHOOL DISTRICT
MANAGEMENT ADVISORY REPORT-
STATE AUDITOR'S FINDINGS

1.	Budgetary Procedures
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- A. Historically, the school district has amended its budget at year-end to ensure expenditures do not exceed the budget. However, the district does not amend the budget before expenditures are incurred. The following table illustrates budget amendments made by the School Board during fiscal years 2001 and 2000:

Fund	Original Budget	Actual Expenditures	Amended Budget
Special Revenue	\$37,398,324	38,165,724	38,250,000 ¹
Capital Projects	4,650,242	5,813,144	5,850,000 ²

¹Amended June 26, 2001

²Amended June 27, 2000

The final checks at year-end are prepared and the expenditures are recorded in the district's records before the budget is amended. These checks are held until the budget is amended by the School Board. After amending the budget, the School Board approves the checks and, if the goods or services have been received, the checks are issued to the payees. In some cases, the checks will continue to be held until payment is due to the employee or vendor. The Superintendent indicated that the district believes it is in compliance with state law because the School Board amends the budget before it approves the final checks.

Section 67.040, RSMo 2000, allows for budget increases, but only after the governing body officially adopts a resolution setting forth the facts and reasons. Section 67.080, RSMo 2000, provides that no expenditure of public monies shall be made unless it is authorized in the budget.

The district should amend the budget before it incurs the expenditures. In the Special Revenue Fund, the checks are for the remainder due for teachers' salaries for the prior school year. The budget should be amended before the expenditures are incurred or before the teachers work the days that cause the overage. For the Capital Projects Fund, the checks are for ongoing projects for which the district has encumbered the funds but may not have necessarily received the services yet. In many cases, the services are performed in the next fiscal year. The budget should be amended when the encumbrances are made. In addition, the district should not be writing and approving checks for services not yet received.

- B. The district does not have a formal, comprehensive plan for the \$23,648,850 combined General Fund and Special Revenue Fund balance. This balance represents 36 percent of the total expenditures from the General and Special Revenue Funds.

District officials attributed the accumulation of this large balance to a conservative estimation of revenues each year and a healthy economy with high interest rates. District officials stated that they are planning to transfer monies from the General Fund to the Capital Projects Fund, therefore, partially reducing the balance in the General Fund. The district should develop a comprehensive plan that addresses the large balances in the General and Special Revenue Funds.

WE RECOMMEND the School Board:

- A. Ensure amendments are made to the budget prior to incurring the expenditure. In addition, the School Board should discontinue the practice of writing and approving checks before the service is received.
- B. Approve a formal, comprehensive plan for the combined General Fund and Special Revenue Fund balance.

AUDITEE'S RESPONSE

The School Board indicated:

- A. *The Board of Education's historical practice in regard to budgeted fund amendments has been to approve budget amendments prior to the issuance of checks for services. In the case of the Special Revenue or Teacher's Fund, the Board had previously approved contracts for teaching staff and the district had written these employees' payroll checks for the summer but had not issued any of the checks. The budget was amended prior to the formal approval of the checks and prior to their subsequent issuance of checks to the employees. In the case of the Capital Projects Fund, checks were written for payment but were not released until the budget was amended and the checks were approved. Checks were then issued to vendors as work was completed. One of the challenges of managing funds for a school district is having capital projects or other purchases in various states of completion and payment as the fiscal year changes over from one to another on July 1. It is common to have received goods or services in one fiscal year and be invoiced when the fiscal year changes. To maximize district funds in any given fiscal year, the district has written checks as goods and services are in various stages of receipt so the district will not be penalized from receiving full state aid in the next fiscal year. The district acknowledges the auditor's suggestions and has established the practice of presenting budget amendments quarterly for approval.*
- B. *While the district's plan is not in written form, the plan has been discussed in Board of Education meetings. The plan has been to 1. invest fund balances per state statute, and 2. reduce the General Fund balances over time through one-time expenditures. The district*

has earned the following amounts in interest: 2000-01 school year - \$2,748,301.02, 1999-00 school year - \$2,196,894.75, 1998-99 school year - \$1,902,416.28 and 1997-98 school year - \$1,754,942.11 for a total over the last four years of \$8,602,554.16. This has been revenue the district has been able to generate by investing these balances rather than increase the tax levy to patrons of the school district to achieve additional operating revenue. For the last six years the district has had a five-year capital improvement plan that is reviewed and modified annually. This plan has used balances in one-time expenditures over the last two school years for capital improvements to district school buildings totaling \$3,789,067.22. Plans to spend down balances over the last several years became a challenge as the healthy economy increased anticipated revenues. No balance exists in the Special Revenue Fund.

AUDITOR'S COMMENTS

- A. The School Board should amend the budget prior to incurring the expenditure or when the teachers' or capital projects' contracts are signed instead of right before the checks are approved. These obligations have already been incurred and are owed by the district. Again, the State Auditor's Office believes checks should not be written and approved before the service is received. Including these payments as expenditures in order to maximize state aid is not proper.

2.	Concert Series
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- A. The concert series operated at a loss of over \$49,000 during the year ended June 30, 2000. General Fund monies were used to cover the loss, resulting in taxpayers paying for concerts they may not have attended and for which there was no educational benefit to the district's students. For several years, the school district has held Spring and Fall concert events in the Rickman Auditorium. During 1999 and 2000, numerous events were held including five concerts by nationally-known performers. District personnel were responsible for entering into contracts with these performers and setting the ticket prices. However, the costs of the concerts significantly exceeded the amount of revenues generated from ticket sales. The following is a summary of fiscal year 2000 concerts activities:

Year ended June 30, 2000	
Revenues- Ticket Sales	\$ 93,860
Expenditures	<u>143,828</u>
Loss	<u>\$ (49,968)</u>

The School Board requires district personnel to submit a monthly report of all Rickman Auditorium activities. According to the School Board's policy, the report must include the status of all events as well as the related financial information. District personnel submitted these reports, which showed the total revenues and expenditures for each concert, to the School Board after each

performance. It appears that the School Board, which served at that time, was aware that the district was incurring a loss on the concert series and the concerts were stopped at the end of the Fall 1999 series.

- B. District personnel did not properly allocate all expenses to the Rickman Auditorium Fund. The school district has a formal policy outlining accounting procedures for events held in the Rickman Auditorium requiring appropriate expenditures to be allocated to this fund, including applicable portions of salaries, telephone usage, postage, supplies, insurance, utilities, and repairs and maintenance. While some supply and advertising expenditures were allocated to the concerts, salary and utility expenditures were not allocated to the events held in the Rickman Auditorium. Including these costs would increase the losses noted above.

WE RECOMMEND the School Board:

- A. Make careful and informed decisions regarding the activities held at the district, with particular emphasis on those activities which do not provide an educational benefit to the students.
- B. Require district personnel to follow the district's accounting policy so that accurate financial information can be presented regarding the Rickman Auditorium.

AUDITEE'S RESPONSE

The School Board indicated:

- A. *The Rickman Auditorium was built in 1986 as a place for student performances and community events. The Rickman Auditorium series began in 1987 as a means to provide high quality entertainment for a low cost, ease of travel to district patrons and scholarships to students from profit generated. Over \$16,000 in scholarships has been awarded to students from the Rickman Auditorium concert series proceeds. Documents indicate that no discussions took place with the then Board of Education about the loss in the concert series until August 1999. Once the Board of Education became aware the concert series could not support itself it was discontinued in December 1999.*
- B. *In review of records, the district acknowledges that some costs specifically utility costs for ten days per year for the series were not charged to the series. The district is revising its practice and reviewing the auditor's suggestions.*

3.**Bidding Procedures**

- A. The district's current bidding procedures could be made more effective by adopting a more comprehensive policy with a lower dollar limit. The current policy states that a formal bidding process may be used for projected expenditures of \$12,500 or greater for items such as supplies, materials, equipment and contractual services. In addition, the district policy requires all construction projects over \$12,500 be bid as required by Section 177.086, RSMo 2000. However, the policy does not require bidding for non-construction items and does not indicate the types of bidding that can be done to ensure the district receives the best economical value on its purchases for amounts less than \$12,500.

In addition to complying with state law, competitive bidding helps ensure the school district receives fair value by contracting with the lowest and best bidders. Bidding helps ensure all parties are given an equal opportunity to participate in the district's business.

A more comprehensive policy would require bidding and would identify specific bidding procedures that are required for purchases under \$12,500. Bids could be handled by telephone quotation, sealed bids or advertised sealed bids. Different approaches may be appropriate, depending on the dollar amount of the purchase.

- B. The district did not formally bid all purchases over \$12,500, and documentation of informal price quotations was not maintained.
- 1) The district paid a vendor more than \$13,000 in October 2000, to print its annual calendar. Bids were not formally requested for this service, and documentation of informal price quotations was not retained.
 - 2) The district paid a single vendor approximately \$33 per hour, in labor costs, to service district buses and vehicles. The total parts and labor costs paid to this vendor were \$311,879 and \$255,856, for the years ended June 30, 2001 and 2000, respectively. The hourly rate for labor was not bid.

Without formal bidding or documentation of price quotations, there is no evidence the School Board received the lowest and best service.

- C. Bid documentation is not always received or retained by district personnel. Sealed bids submitted by contractors are often sent to the architectural firm and the architect then brings the bids to the district to be opened prior to the School Board meeting. Similarly, Food Service and Transportation Department personnel receive bids applicable to their departments. Once bids are opened, the bids are often given to and retained by individuals outside the Administration

building. As a result, district personnel were not able to locate all the bid documentation for one project we reviewed.

The district's bidding procedures could be made more effective by requiring all sealed bids to be sent directly to the Administration building and by requiring all bid documentation to be retained. When sealed bids are sent to other locations, the integrity of the bid process is compromised, and when bid documentation is not retained, there is no evidence that the School Board has complied with its bid policy.

- D. The district has a policy addressing the selection of architects, engineers, and land surveyors. This policy states that the selection shall be based upon competence, qualifications, and reasonable prices. However, the policy does not address the selection of providers of other types of professional services.

The district has contracted with the same local CPA firm for its annual audit since 1992. The Superintendent indicated proposals were requested for this service in 1998; however, there is no documentation available indicating the district solicited other firms. During the year ended June 30, 2001, the district paid this firm a total of \$10,499 for audit services.

Selection processes are necessary to ensure the district is receiving the best services and rates. The process should include soliciting proposals and evaluating these proposals for technical experience, capacity and capability of performing the work, past record of performance, and the firm's proximity to and familiarity with the school district.

WE RECOMMEND the School Board:

- A. Adopt a more comprehensive bid policy which requires bidding and establishes bidding requirements for purchases less than \$12,500.
- B. Require applicable bidding procedures be applied to ensure the district is receiving the most economical value on the purchases of goods and services. In addition, documentation regarding all price quotations should be retained.
- C. Require that all bid documentation be retained at the district's Administration building. In addition, the School Board should require that all sealed bids are received directly by Administration building personnel.
- D. Adopt a policy addressing the selection of all professional services, and periodically solicit proposals for the selection of these service providers. All documentation regarding proposals solicited should be retained.

AUDITEE'S RESPONSE

The School Board indicated:

- A. *Per state statute Section 177.086, RSMo, the district is only required to solicit bids for "the construction of facilities which may exceed an expenditure of \$12,500." Missouri law does not require or even address bidding for the purchase of goods or services for school districts (other than the City of St. Louis Public Schools). Under our current policy, the district is permitted to seek bids whenever projected expenditures for goods exceed \$12,500 or whenever the administration determines such bidding to be appropriate under particular circumstances. Although not mandated by state law, the policy is intentioned to ensure that high dollar-value purchases are made in the most cost-effective manner possible. The policy is also consistent with similar policies adopted by other public school districts in Missouri that have chosen to provide for competitive bidding of goods.*

The current policy also provides direction for the district in obtaining quotations for "projected expenditures of \$12,499.99 or less for supplies, materials, furniture, equipment and miscellaneous items." This is done through "oral or written price quotations." The district's procedure has been to obtain phone, fax or in person quotations for expenditures of less than \$12,499.99. The district recently implemented documenting the oral or written price quotations as part of the purchase record. Competitive bidding by Missouri's public schools is not required under Missouri law; however, the district's policy that permits such bidding when appropriate is clearly permissible under Missouri law.

- B. *Problems relating to bids:*

1. *Since the inception of the district calendar, the district has never bid the printing of the calendar except for the 2001-02 school year. Over the last several years, the district has paid the following for the printing of the school calendar: 1998-99 school year - \$12,435, 1999-00 school year - \$14,370, 2000-01 school year - \$13,848 and 2001-02 school year - \$4,549.96. The district followed the previous administrative practice in the printing of the calendar until the 2001-02 school year when the calendar was bid. Per state statute Section 177.086, RSMo, the district is only required to solicit bids for "the construction of facilities which may exceed an expenditure of \$12,500." Missouri law does not require or even address bidding for the purchase of goods or services for school districts (other than the City of St. Louis Public Schools). The district was in compliance with its own policy as the policy states the district may use a formal bidding process for certain expenditures of \$12,500 or greater. The district used an informal process to obtain price quotations on the pricing of the district calendar as it had in previous years.*

2. *The district believes that \$33 per hour for non-school personnel labor costs is well below the average in maintaining large vehicles. Per state statute Section 177.086, RSMo, the district is only required to solicit bids for "the construction of facilities which may exceed an expenditure of \$12,500." Missouri law does not require or, even, address bidding for the purchase of goods or services for the school districts (other than that City of St. Louis Public Schools). The district is in compliance with the law and is reviewing the auditor's suggestions.*
- C. *The district has revised its practice and all bid documentation is received and retained at the Administration building.*
- D. *The local CPA firm which has been the district auditor since 1992 currently audits eleven public school districts, two of which are in St. Louis County. One of these districts is one of the largest school districts in the state of Missouri. The district auditor provides the district with very competitive rates that are reviewed periodically based upon qualitative and cost-based standards. When the review of audit firms was completed, informal price quotations were obtained to compare fees. Recently, an informal survey of some St. Louis County districts of similar or smaller size indicates our fees are below their existing fee structure. Per state statute Section 177.086, RSMo, the district is only required to solicit bids for "the construction of facilities which may exceed an expenditure of \$12,500." Missouri law does not require or even, address bidding for the purchase of goods or services for school districts (other than the City of St. Louis Public Schools). Textbooks are a good that is purchased by school districts that are selected based upon qualitative and cost-based standards. Under our current policy, the district is permitted to seek bids whenever projected expenditures for goods exceed \$12,500 or whenever the administration determines such bidding to be appropriate under particular circumstances. Although not mandated by state law, the policy is intentioned to ensure that high dollar-value purchases are made in the most cost-effective manner possible. The policy is also consistent with similar policies adopted by other public school districts in Missouri that have chosen to provide for competitive bidding of goods.*

AUDITOR'S COMMENTS

- A&B. Although state law only requires school districts to solicit bids for new construction over \$12,500, competitive bidding for items under this amount ensures the district receives fair value by contracting with the lowest and best bidder. Although the district policy is permissible, the State Auditor's Office believes the district policy should require bidding.
- D. It would appear appropriate under these circumstances to seek proposals for auditing services. Such a procedure would "ensure that high dollar-value purchases are made in the most cost-effective manner possible."

The school district does not always enter into written contracts defining services to be provided and benefits to be received. The district's policy gives the School Board sole authority to enter into and approve contracts. We noted the following concerns regarding contracts:

- A. There is no written contract between the school district and the vendor used to maintain and repair the district's buses and vehicles. The district paid this vendor \$311,879 and \$255,856, for the years ended June 30, 2001 and 2000, respectively.
- B. There is no written contract between the district and its architect which outlines the services to be provided or the costs for those services. The district hired the firm as the "district architect" during February 2001; however the firm had provided architectural services to the district for the past 13 years. During the years ended June 30, 2001 and 2000, the district paid the firm \$89,670 and \$66,358, respectively.
- C. The district does not have a written contract with the company that provides maintenance supplies used for the repair and maintenance of district buildings. The total amount of supplies purchased was \$52,631 and \$41,522 for the years ended June 30, 2001 and 2000, respectively.
- D. There are no written contracts with the three vendors providing *a la carte* food items to the Food Service Department. Department personnel purchased food totaling \$44,529 and \$38,917, for the years ended June 30, 2001 and 2000, respectively, from these vendors.
- E. There is no written contract between the district and its depository bank. District personnel indicated that the information the bank submitted in response to the district's request for proposal (RFP) serves as the contract; however, we noted numerous changes, in pencil, made to this document. Furthermore, the document was not signed by the School Board.
- F. There are approximately eight vendors providing soda or other vending machines in school buildings. The vendors stock the machines and collect the monies. District personnel could only locate written contracts with three of the eight vendors. In addition, one of the contracts was signed by the Food Service Supervisor and not by the School Board.
- G. Some written contracts are not signed by the School Board. For example, a construction contract, totaling \$150,440, was signed by an administrator rather than by the School Board. While we did note that the School Board approved the project in its minutes, district policy states that the School Board has the sole authority to enter into contracts.

Written contracts between the School Board and applicable parties should specify the services to be rendered and the manner and amount of compensation to be paid. Written contracts are necessary to ensure all parties are aware of their duties and responsibilities and to prevent misunderstandings. In addition, Section 432.070, RSMo 2000, requires contracts for political subdivisions to be in writing.

WE RECOMMEND the School Board enter into, approve, and sign written contracts with all applicable parties which clearly define the work to be performed and the compensation to be paid or benefits to be received.

AUDITEE'S RESPONSE

The School Board indicated:

- A. The district operates a bus fleet of 111 vehicles and properly maintains them regularly to insure safe and economical operation for the students who ride them everyday. Proper maintenance is reflected in two ways: 1. Buses that pass inspections with a high percentage at the beginning of the year by licensed inspectors and in the spring by the Missouri State Highway Patrol, and 2. The efficiency of the transportation service. An average of the last four years reveals that 88% of our buses pass both beginning of the year and Highway Patrol inspections. Those that didn't pass did not have serious problems that would remove them from daily service. Our district transportation efficiency rating is better than the state standard for efficiency and was second in the metropolitan St. Louis area during the 2000-01 school year.*
- B. The architect submitted a contract to the district pending passage of the bond issue. The contract is under review by the district, the architect, and the district's attorney. It is anticipated the contract will be approved and signed soon.*
- C. The company mentioned by the State Auditor that provides maintenance supplies to the district is one of many vendors that provide maintenance supplies to the district. The vendor in question is frequently used because they are a local company within our community and provide the item(s) needed in the district for the best cost as realized through phone call price quotations. Since this is not the only vendor that the district deals with, the district does not contract with them for all maintenance supplies but seeks the best cost. The majority of what the district purchases from this vendor are supplies and equipment that are priced per the State of Missouri contract bid for these supplies and equipment. The district will investigate if better pricing could be achieved in a contractual manner per the auditor's suggestion.*
- D. The district does not have contracts with the a la carte food providers for the Food Service Department but does have competitive pricing from a variety of vendors for the a la carte items.*
- E. Competitive bids for depository services were used to determine the bank the district uses. Alleged changes made in pencil were notes made by a district official when*

discussing information with the depository bank. Per the auditor's suggestion, the depository bank proposal was recently signed.

F. The district contracts with major providers of soda for our vending machines. Decisions about vending for buildings prior to the 2000-01 school year were made at the building level as a reflection of the Board of Education approved Governance and Administration section of the Comprehensive School Improvement Plan labeled "site-based decision making" which was the encouraged practice of the then administration of the school district.

G. The district will take steps to ensure that the Board of Education signs all contracts unless otherwise designated by the Board of Education.

Purchase orders, invoices and documents reflecting the purchase of many school district goods and services are typically not considered to be "contracts." In such event, a written contract covering such goods/services is not required by law. The Board thus need not formally enter into written contracts for such items/services. District policy already provides for a mechanism of payment for such goods/services. The Board is reviewing the procedure for this.

5. Expenditures

A. District policy requires purchase orders be submitted for all purchases which are not specifically exempted by the School Board. Exempted purchases include recurring monthly utility expenses or emergency purchases. We noted the following concerns regarding purchase orders:

- 1) While purchase orders must be approved by building principals, department supervisors (if applicable), and the Assistant Superintendent of Finance, the purchasing clerk is allowed to make changes to the approved purchase order if it does not agree to the vendor's invoice. Sometimes it is necessary to adjust purchase orders to include shipping charges or price changes; however, there is no policy which sets a dollar limit for which the purchase order can be changed. Furthermore, these changes are not monitored or approved.
- 2) Thirteen out of seventeen purchases (76 percent) reviewed either did not have a purchase order, or the purchase order did not agree to the amount of the vendor's invoice. For example, district personnel paid a contractor \$58,730 for work performed at several different schools, while related purchase orders totaled only \$35,305. In another instance, purchases of office supplies and equipment were made, totaling \$2,473, without the use of purchase orders.

To ensure accurate amounts are paid and that all expenditures are authorized, the district should prepare accurate purchase orders in accordance with district policy.

In addition, differences between purchase orders and vendor invoices should be investigated before payment is made, and changes to approved purchase orders should be monitored and approved.

- B. Overpayments to vendors were not discovered by district personnel on a timely basis. Accounts payable personnel enter invoice information into the computer system so that payments can be made; however, once the checks are generated, no one compares the check amounts to the actual vendor invoices. Furthermore, district personnel do not compare contract payments to the actual contract amounts. As a result, we noted the following:

- 1) A contractor submitted four invoices to the district totaling \$74,026. District personnel generated two checks, totaling \$129,046, for these invoices. The overpayment of \$55,020 was not detected by the district; however, the vendor noted the overpayment and refunded the district.
- 2) Another contractor submitted two invoices for work done at several different schools, totaling \$47,455. Again, the district submitted two checks, totaling \$58,730, overpaying the contractor by \$11,275. District personnel sought reimbursement from the vendor after we brought the error to their attention.

- C. The district purchased goods and services from two companies in which a School Board member appeared to have a conflict of interest.

- 1) In May 1997, the district bid the installation of alarm systems for several school buildings. The contract also included service and monitoring for these systems for three years. Subsequent to the district entering into this contract, an individual who worked as a contractor for and was paid an income from the company was elected to the School Board. During 1999, additional installation charges of \$3,538 were paid that were not covered by the contract. In addition, \$4,672 in service and monitoring costs were paid after the contract expired.
- 2) During the year ended June 30, 2000, the district traded-in six cellular telephones and paid \$870 for upgraded models. The district purchased these upgraded telephones from a company partially owned by a School Board member. In addition, this purchase was not bid.

Sections 105.454 and 105.458, RSMo 2000, prohibit elected officials from selling property to a political subdivision in excess of five hundred dollars unless the purchase is competitively bid.

- D. District personnel processed some credit card payments without proper supporting documentation. We noted several credit card statements with charges for

computer equipment and lodging expenses which were paid without original invoices or receipts.

To ensure the validity and propriety of the expenditures approved for payment, adequate documentation should be obtained.

- E. The district owns 17 cellular telephones which are utilized by administrators, supervisors, and some district personnel. During the year ended June 30, 2001, the district paid \$12,944 for cellular telephone equipment and services. We noted the following concerns relating to cellular telephones:

- 1) The district does not have a formal policy regarding the usage of cellular telephones. The informal policy, according to district administrators, allows cellular telephone users to use the telephones for personal use as long as they do not exceed the airtime included in their contract.

When analyzing cellular telephone billings over a period of twelve months, we noted some users exceeded the airtime provided in their plans. However, since users are not required to identify personal calls, we were unable to determine if any personal calls contributed to the airtime limits being exceeded and if costs were associated with personal calls.

A cellular telephone policy should restrict cellular telephone use for business purposes and require cellular telephone use be monitored on a periodic basis. District personnel should not be allowed to use cellular telephones for personal use, even if the airtime included in the contract is not exceeded.

- 2) The district paid approximately \$300 in state and local sales taxes for cellular telephone equipment and services. Political subdivisions are exempt from paying these sales taxes.

- F. The district used Gifted Education monies to transport students to various functions which is an unallowable cost according to the Department of Elementary and Secondary Education's guidelines. The total unallowable costs for the years ended June 30, 2001 and 2000, were \$1,177 and \$1,909, respectively. The state Gifted Education program allows funding only for instructional personnel and materials. Therefore, the district owes these unallowable costs back to the state's Gifted Education program.

WE RECOMMEND the School Board:

- A.1. Implement a policy to address changes made to purchase orders.
- 2. Ensure that purchase orders are prepared for expenditures in accordance with district policy.
- B. Ensure that actual check amounts are compared to vendor invoices. In addition, the School Board should ensure contract payments are compared to actual contract amounts to avoid overpayments to vendors.
- C. Disallow purchases to be made from School Board members in excess of five hundred dollars, unless competitively bid, in accordance with state law.
- D. Ensure all supporting documentation is submitted before payments are made.
- E.1. Adopt a cellular telephone policy which outlines proper controls over the use of cellular telephones, such as prohibiting the use of cellular telephones for personal use.
- 2. Discontinue paying state and local sales taxes.
- F. Work with personnel in the state's Gifted Education program to determine the amount which needs to be refunded, and discontinue using Gifted Education monies to pay for student transportation.

AUDITEE'S RESPONSE

The School Board indicated:

A. Purchase Orders

- 1. *The district has revised policies and procedures on purchase orders. If changes are necessary to purchase orders, they are monitored and approved by the Superintendent, Business Manager or the Controller. The district is reviewing the auditor's suggestions for additional improvements.*
- 2. *The jobs noted in the auditor's report were bid and had an individual job unit price and a total bid unit price for all jobs. The additional work completed by the vendor was work completed below the total unit price. The district felt since the job unit price was below what the actual total bid unit price was, the work should be completed. Per state statute Section 177.086, RSMo, the district is only required to solicit bids for "the construction of facilities which may exceed an expenditure of \$12,500." Missouri law does not require or, even, address bidding for the purchase of goods or services for school districts (other than the City of St. Louis Public Schools). The district is in compliance with the law. The district has*

made changes as to how any additional work is to be approved and paid and is further reviewing the auditor's suggestions.

The purchase of supplies and equipment are sometimes made without the use of a purchase order with the approval of the administration if the need for the item is critical. Currently, invoices and purchase order differences are thoroughly reviewed before payment is made.

- B. Overpayments did occur on two invoices. All overpayments have been recovered and the district thanks the auditor's office for bringing that to our attention. To prevent the likelihood of this occurrence happening again, changes have been made in our accounting procedures.*
- C. Vendors and School Board members.*

 - 1. The district contracts for alarm systems were awarded to different vendors at different times for different schools based upon when the bids were completed and who was awarded the bid. The contracts were to include the installation and monitoring of the security systems. During and after the contract period, additional installation of security system equipment and monitoring were approved. Because there were several monitoring companies, the district wanted to wait for all contracts to expire when all buildings could be bid for monitoring service at one time. The individual with an apparent financial interest in the vendor selected by the Board had no proprietary interest in the vendor and received no residuals or commissions from the vendor related to Fox C-6 School District per the president of the company in a letter dated August 1, 2000. This information may also be verified through the financial disclosure information filed with the Missouri Ethics Commission by the Board member in question. The district is developing an orientation program for new Board of Education members to make them knowledgeable of conflict of interest statutes as well as other statutes that directly or indirectly affect them.*
 - 2. As a practical matter, it would have been more costly to bid the cellular phone upgrade in order to upgrade the phones. It was felt by the then administration to be more practical and cost effective to upgrade the phones rather than bid the upgrade. The district will ensure that such services, which may compromise state law, will be competitively bid.*
- D. The district has reviewed our procedures for credit card documentation and will not accept inadequate documentation for reimbursement.*
- E. The district has recently implemented a policy on cellular telephones and reviews monthly bills for accuracy and compliance with the cellular contract. The sales tax payment was subtracted from the next month's bill to recover the tax payment after discussion with the State Auditor's Office. The district is seeking additional clarification on the payment of local county and federal taxes as it relates to utilities.*

- F. *The district has corrected the unallowable cost with the Department of Elementary and Secondary Education and it has been paid.*

AUDITOR'S COMMENTS

- A.2. Our comments and recommendations did not address bidding. Instead, we are recommending that purchase orders be prepared for expenditures in accordance with the district policy.

6. Food Service

The school district operates its own Food Service Department consisting of approximately 90 full and part-time employees, including administrative staff, kitchen managers, cooks, cashiers, and drivers. Breakfast and lunch are served daily in each of the district's 15 cafeterias. According to district records, the Food Service Department operated at a deficit of more than \$244,000 during the year ended June 30, 2001.

Currently, the price for elementary lunches is \$1.50, while secondary students pay \$1.65. On May 16, 2000, the School Board voted to increase student lunch prices by 10 cents hoping such an increase would eliminate the need for further increases in the next few years, according to the official School Board minutes. However, even with the increase in ticket prices, the district is operating at a significant loss.

District administrators cannot explain why the program is operating at a loss but have recently begun a study to evaluate the problem. A thorough review of the Food Service program is necessary to enable the district to take appropriate action to increase the efficiency of the program and reduce the operating loss.

WE RECOMMEND the School Board ensure a thorough review of the Food Service program is performed and take necessary action to ensure the program operates within available resources.

AUDITEE'S RESPONSE

The School Board indicated:

Since June of 2001, the district has been aware of the deficit in the Food Service Department and has been reporting to the Board of Education monthly on improving the efficiency of the department. A thorough review of the program is ongoing including a review of reasonable costs of what should be charged to the food service department, longitudinal data and labor and food costs. The reason district administrators could not explain the loss is they are new to the supervision of the food service program. Food service operations have been monitored over the last few years but are now being monitored in a different way. Plans were developed this year to review the efficiency of the program.

- A. The school district does not maintain a comprehensive record of all property owned by the district. The district requires teachers to prepare an annual inventory listing of property in their classrooms. However, the district's listing does not include all assets such as vehicles, buildings, and land.

Adequate property records are necessary to maintain adequate controls over property, provide a basis for determining proper insurance coverage, and provide assurance to the public that assets purchased with school monies are being utilized by the school district.

- B. The district does not utilize prenumbered inventory tags that identify fixed assets items as "Property of Fox C-6 School District". Prenumbered tags, when affixed to property items, allow for identification of the property in the records and limit the potential for personal use of school district assets.
- C. The district owns approximately 22 vehicles, excluding buses. The Superintendent, Transportation Supervisor, Maintenance Supervisor, three maintenance employees, and one Food Service employee are assigned vehicles which they use for commuting purposes. The Superintendent's contract allows the car assigned to him to be used for commuting purposes; however, the district does not have a policy allowing the other district-owned vehicles to be taken home. Furthermore, mileage logs are not maintained for district vehicles, and the vehicle usage is not reported as a taxable benefit on the W-2's of those individuals who use the vehicles for commuting.

Internal Revenue Service (IRS) Code reporting guidelines indicate personal commuting mileage is a reportable fringe benefit. Furthermore, IRS guidelines require the full value of the provided vehicle to be reported on the employees' W-2's if the employer does not require the submission of detailed logs which distinguish between business and personal usage.

WE RECOMMEND the School Board:

- A. Ensure all general fixed assets are included on the school district's fixed asset listing.
- B. Ensure prenumbered inventory tags that label each item as "Property of Fox C-6 School District" are attached to district property and equipment.
- C. Comply with IRS guidelines for reporting fringe benefits related to district-owned vehicles. In addition, the School Board should establish a written policy regarding the appropriate use of district-owned vehicles for commuting purposes and require logs to be maintained on all vehicles.

AUDITEE'S RESPONSE

The School Board indicated:

- A. The district has begun to include vehicles, buildings and land on fixed asset inventory.*
- B. The district is currently reviewing tagging property within the district.*
- C. The district is developing a regulation related to district-owned vehicles to be taken home. Currently, maintenance employees are allowed to take vehicles home if they live in the district. Twenty-nine bus drivers take their buses home due to bus routes and a lack of bus fleet parking space. Non-bus vehicles have recently begun using mileage logs. The district is reviewing guidelines for personal commuting mileage as a fringe benefit.*

This report is intended for the information of the management of the Fox C-6 School District and other applicable government officials. However, this report is a matter of public record and its distribution is not limited.

HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

FOX C-6 SCHOOL DISTRICT
HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

The Fox C-6 School District is located in the northeastern part of Jefferson County and covers approximately 102 square miles.

The district operates two high schools (9-12), three junior high schools (7-8), and ten elementary schools (K-6). Enrollment was approximately 10,970 for the 2000-2001 school year. The district employs approximately 1,200 full and part-time employees, including 35 administrators, 665 teachers, and 500 support staff.

The Fox C-6 School District has been classified under the Missouri School Improvement Program as "Accredited" by the Missouri Department of Elementary and Secondary Education.

An elected board acts as the policy-making body for the district's operations. The board's seven members serve three-year terms without compensation. Members of the board at June 30, 2001, and their current terms of office are:

<u>Name and Position</u>	<u>Term Expires</u>
Pete Nicholas, President (1)	April 2004
Paul Hill, Vice President (2)	April 2002
Carolyn Broach, Member (3)	April 2003
Cheryl Hermann, Member	April 2003
Ruth Ann Newman, Member (4)	April 2004
Richard Simpson, Member (5)	April 2002
Linda Tramel, Member (6)	April 2002

(1) Elected President in April 2001, replacing Carolyn Broach.

(2) Elected Vice President in June 2001, replacing Don Earl.

(3) Resigned in November 2001, a replacement has not been appointed.

(4) Elected in April 2001, replacing Ronald Counts.

(5) Elected in April 2001, replacing Ronald Clark.

(6) Appointed in July 2001, replacing Don Earl, who passed away in May 2001.

Other Principal Officials	Annual Compensation
James Chellew, Superintendent (1)	\$114,279
Robert Gruenewald, Associate Superintendent- Business Manager (2)	121,210
Vicki Hanson, Assistant Superintendent- Special Services (3)	99,598
Michael Pipkin, Assistant Superintendent- Secondary Education	95,768
Arnold Stricker, Assistant Superintendent- Human Resources (4)	99,598
Alan Emerson, Assistant to the Superintendent	64,643

- (1) Became Superintendent in March 2001, replacing Dr. Diana Bourisaw. Mr. Chellew also served as Assistant Superintendent- Elementary Education through June 2001. This position was filled by Alice Menne in July 2001.
- (2) Arnold Stricker became Assistant Superintendent- Business Manager in July 2001.
- (3) Vicki Hanson became Associate Superintendent- Special Services in July 2001.
- (4) Dianne Brown became Assistant Superintendent- Human Resources in July 2001.

Assessed valuations and tax rates for June 30, 2001 were as follows:

Assessed Valuation	\$ 510,775,905
Tax Rate(s):	
Incidental	\$ 3.0357
Capital Project	.2500
Debt Service	.2800
Total	\$ <u>3.5657</u>

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